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AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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TO: Mayor Michael D. Antonovich  
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Supervisor Zev Yaroslavsky  
Supervisor Don Knabe

FROM: J. Tyler McCauley   
Auditor-Controller

SUBJECT: **ALLEGATIONS AGAINST PENNY LANE CENTERS**

At the request of the Department of Children and Family Services (DCFS), we have reviewed three allegations of financial and recordkeeping improprieties by the management of Penny Lane Centers. The allegations were reported in an anonymous letter.

Penny Lane Centers (Penny Lane or Agency) operates a Foster Family Agency (FFA) and a Group Home (GH) under contract with DCFS. From July 1, 2004 through December 31, 2004, Penny Lane received approximately \$2.8 million and \$2.4 million in FFA and GH funds, respectively, from DCFS. In addition to its contracts with DCFS, Penny Lane Centers has a number of other agreements with Los Angeles County and other California counties to provide a variety of services, including mental health services for Los Angeles County.

**Background/Scope**

The allegations against Penny Lane Centers are as follows:

- The Agency's Executive Director diverted foster care funds to her family members.
- The Agency selected an architect for its new North Hills building without competitive bidding.
- The Agency did not maintain proper personnel records for its employees.

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To assess the validity of the allegations, we conducted interviews with Penny Lane and County personnel, and reviewed relevant Agency records.

### **Results of Review**

Our review indicates that the allegations that the Executive Director was diverting foster care funds to relatives, and that the Agency did not maintain proper employee records were not substantiated. We did substantiate the allegation that the Agency failed to use competitive bidding to obtain an architect. However, our review indicates that the amount paid to the architect was reasonable. The following are the details of our review of the allegations.

#### **Allegation 1**

The Agency's Executive Director was diverting foster care funds to her family members.

#### **Findings**

Penny Lane's Executive Director (ED) acknowledged that she has three relatives who are employed by the Agency. Specifically, the ED's brother is the Agency's Chief Deputy, and two of the ED's cousins serve as the Director of Clinic Operations and Procurement Manager, respectively. The Agency's accounting records indicate the following payments to these individuals:

	<u>2004 Salary</u>	<u>Other Disbursements between 7/04 and 12/04</u>
Executive Director	\$127,638	\$3,289
Chief Deputy	\$ 80,420	\$ 138
Director of Clinic Operations	\$ 90,368	\$ 727
Procurement Manager	\$ 67,871	\$ 137

DCFS staff indicated that the ED's relatives are qualified for their positions and that the relatives are performing their duties at the Agency. We also noted that the salaries paid to the ED's relatives are reasonable, based on the size of the Agency and, where applicable, the most recent Child Welfare League of America Salary Study. The "Other Disbursements" were generally small payments for business meetings and mileage.

We also performed procedures to determine that the Agency did not employ other related parties and that no other payment(s) in excess of \$10,000 (aggregate) were made to any related parties. Our review did not identify any additional related parties, or any other payments to related parties.

## **Conclusion**

This allegation was not substantiated. The only significant payments to the Executive Director and three related employees were for salaries, which appeared to be reasonable.

## **Allegation 2**

Penny Lane Centers selected an architect without competitive bidding.

## **Findings**

In September 2000, the Agency entered into a \$150,000 contract with Hatch-Colasuonno to design and oversee construction of a family center in North Hills, California. The contract allowed for additional payments for "additional services of the architect", "additional services of consultants" and "reimbursable expenses". The Agency paid Hatch-Colasuonno a total of \$237,235.

Agency management acknowledged that they did not use competitive bidding to select the architect. However, they indicated that they had previously used Hatch-Colasuonno for architectural services, and that, based on their positive prior experience, they decided to forego competitive bidding for the North Hills facility.

While the Agency's architectural contract was not competitively bid, based on the County Department of Public Works (DPW) Architect/Engineer Fee Schedule, it appears that the fees paid to Hatch-Colasuonno were reasonable. DPW's Architect/Engineer Fee Schedule which DPW uses to establish reasonable compensation for contracted services similar to Penny Lane's contract, indicates that a reasonable fee for the North Hills building would have been approximately \$246,000. As previously noted, Penny Lane paid Hatch-Colasuonno a total of \$237,275.

## **Conclusion**

This allegation was substantiated. Penny Lane did not use competitive bidding to select the architect for its new North Hills building. However, the fee paid to the architect appears to be reasonable.

## **Allegation 3**

Penny Lane Centers does not maintain proper personnel records for employees.

## **Findings**

The informant specifically alleged that the Agency did not maintain systematic records for its employees (e.g., competencies, performance evaluations, etc.).

A March 2005 review by the Auditor-Controller's Countywide Contract Monitoring Division (CCMD) of Penny Lane's Mental Health program indicated that the Agency had personnel files documenting licensure and practical experience for most of the 58 mental health contract employees tested.

We also reviewed the personnel files of 25 FFA/GH employees, and verified that the files contained the employees' job applications/resumes, proof of required licenses/experience (i.e., college degrees/transcripts, licenses, work experience), performance evaluations, and proof of criminal clearance.

We did note that two files did not contain current CPR and/or first aid certificates.

## **Conclusion**

This allegation was not substantiated. Based on the CCMD's review of the mental health program and our review of the FFA/GH program employees, it appears that Penny Lane's personnel files are generally complete.

## **Review of Report**

Penny Lane management was provided with an opportunity to review and comment on our report and indicated their agreement with the conclusions reached on each of the allegations reviewed.

Please call If you have any questions, or your staff may contact Jim Schneiderman at (626) 293-1101.

JTM:JS:MM

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